GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5135
ANSWERED ON:11.05.2007
VAT ON SECOND HAND CARS
Rawale Shri Mohan

Will the Minister of FINANCE be pleased to state:

(a) whether Government has received any proposal from Federation of Indian Chambers of Commerce and Industry (FICCI) to impose four per cent VAT on the companies engaged in business of sale of old cars and also for giving relief in the Fringe Benefit Tax (FBT) to them; and

(b) if so, the details thereof and the reaction of the Government thereon?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a): Yes, Sir.

(b): FICCI has proposed 4% VAT rate on sale of old cars. In this connection, it is stated that VAT, being a tax on purchase or sale of goods within a State, is a State subject by virtue of Entry 54 of the State List of Seventh Schedule of the Constitution. An Empowered Committee of State Finance Ministers (EC) has been constituted to deliberate upon and make recommendations on various issues concerning State VAT. The EC has finalised the design of VAT including the structure of tax rates under VAT for various commodities. Since VAT is a State subject, it is for the States to take a decision on the proposal for 4% VAT on sale of old cars. Secondly, FICCI has proposed giving relief in Fringe Benefit Tax (FBT) to companies engaged in sale of old cars by keeping certain expenses outside the purview of FBT and by allowing deduction in respect of FBT in the Profit and Loss Account as is being done for other taxes like income tax. In this connection, it is stated that FBT is a surrogate tax on the employers and the same is levied @30% on the value of fringe benefits provided by employers to employees. A presumptive model has been adopted to determine the value of fringe benefits provided by employers. The request of FICCI to keep genuine business expenses and certain auto-retail sector related expenses outside the purview of FBT is not justified as the presumptive model has already factored in these concerns while assigning percentages of expenditure as the value of fringe benefits. Similarly, as regards allowing FBT as deduction to employers, it is stated that the intention of the legislature is to tax the fringe benefits @30%. If a deduction is allowed to employers, the effective rate of FBT would reduce to 21%. It is also not correct on the part of FICCI to say that income-tax paid by employers is allowed as a deduction in their Profit & Loss Accounts.